

PERAC AUDIT REPORT



Springfield Contributory Retirement System

JAN. 1, 2000 - DEC. 31, 2003 / PERAC 03: 10-085-33



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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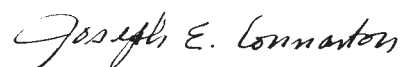
April 27, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Springfield** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **2000** to December 31, **2003**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Richard Ackerson and Robert Madison who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Springfield Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

1. Accounting

- A. Cash reported in Schedule 1A does not balance to the cash reported in the 2003 Trial Balance or the 2003 Annual Statement.
- B. CY 2000, 2001 and 2002 ledgers printed for the auditors did not include 12/31/03 adjusting entries and closing entries. CY 2003 was done correctly.
- C. Multiple accounting entries are not specifically identified; rather, they're lumped together. For example, FY 2001 Pension Fund Appropriations shows \$1,900,000 credited to Account 4894. In reality, the accounting represents \$87,104.20 for School Pension; \$1,256.67 for School Expense; \$1,779,555.97 for City Pension; \$18,201.08 for City Expense and \$13,882.08 for DCDI Grant.
- D. Not all management fees are booked against Management Fees (Account 5304). Income cases, management fees are recorded as Unrealized Losses (Account 4887).
- E. When a City of Springfield payroll check is voided, the reversal of member contributions is being recorded as a member refund. This creates a problem when balancing the supplemental schedule and member contributions.

RECOMMENDATION

- A. Cash reported in Schedule 1A should balance to cash reported in 1040 – 1049 cash accounts.

Board Response:

See exhibits marked #1 through #3

Assets and Liabilities 1040 Cash account totals		\$97,955.88
1040 Cash balance on trial balance	\$12,521.14	
1042 State Street Bank & Trust	\$85,184.74	
1045 Principle Cash (petty cash)	\$ 250.00	

- B. All ledgers must include all entries including closing/adjusting entries. In addition, General Ledger Reports must begin with first day of the year (e.g., 1/1/03 to 12/31/03, not 1/2/03 to 12/31/03).

Board Response:

Ledgers are included with this report. See exhibits marked #4 through #6

- C. It is strongly recommended that the retirement system specifically identify where the funds are coming from; and, to stop combining expense and grant monies with appropriation monies or lumping funds together. In addition, Expense Funds and Grant Funds should be booked directly to Account 4896 Expense Fund Appropriations and Account 4897 Expense Fund Appropriations, not Account 4894 Pension Fund Appropriations. The following example highlights a typical example of (i) the current accounting procedure of lumping

Springfield Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

funds together and (ii) the proposed method of specifically identifying where the monies should be going.

- i. City appropriation payments were accounted as follows:

1040	Cash	\$1,900,000	
4894	Appropriations		\$1,900,000

- ii. Multiple entries should be specifically identified as follows:

1040	Cash	\$1,900,000	
4894	School		\$ 87,104
	School		1,256
	City	1,779,556	
	City	18,201	
	MCDI		13,883

Board Response:

The current monthly cashbooks are showing separate entries for all payments to the system in regard to the pension and federal grant appropriations. This reporting correction will continue to proceed from this period forward.

- D. Management fees should be properly booked against the Management Fee Account 5304. It is recommended that the Springfield Retirement System review procedures with their Custodian Bank, State Street Bank & Trust and their Investment Managers.

Board Response:

Beginning in January 2005, monthly cash reports will reflect the payment of management fees to account 5304. CRA RogersCasey has contacted all Pool Fund Managers and indicated a copy of the Pool Fund Worksheets be sent directly to the Springfield Retirement System. Our consultant along with our custodian has been made fully aware of the process needed to comply with the recommendation of the audit and a procedure has been put in place. The fees will be broken out and reported correctly.

- E. When a payroll check is voided and member contributions are returned to the city, the proper journal entry would be:

Debit 4891 Member Deductions
Credit 1040 Cash

Board Response:

The City Treasurer and the City Auditor have been made aware of the current practice of voided payroll checks. Currently, the City Treasurer, on his cash reports to the system, indicates the weekly amount of retirement contributions to the system. If, after such reporting an employee has a

Springfield Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

canceled check, the retirement contributions are refunded to the department (departmental refund) from which the check has been issued. A notice has been sent to the City Treasurer and City Auditor to address this concern. Copy Enclosed.

2. Bank Accounts and Checks

- A. The Springfield Retirement System bank accounts and checks have the 'City of Springfield' imprinted on them. In one case, there is no reference to the retirement system, simply the City of Springfield.
- B. Bank statement reconciliations performed by the Treasurers Office contain a significant amount of reconciling items and dollar carryovers from prior years. For example, a net of \$3,357.60 of unknown reconciling items dates back several years; another group of 11 historical checks netted out to \$1,028.03 (outgoing funds up to \$1,033.33 offset by incoming funds up to \$1,606.80).

Recommendation

- A. To limit errors and confusion, it is recommended that the bank statements and checks be printed with 'Springfield Contributory Retirement System' rather than the 'City of Springfield'.

Board Response:

Written notification has been sent to the City Treasurer to correct the identification of the pension payroll checks. The Treasurer was instructed to order checks entitled "The Springfield Contributory Retirement System". This issue was also addressed at a meeting held on December 28, 2004 with the Chief Financial Officer and the City Treasurer. See enclosed copy of notification.

- B. The Springfield Contributory Retirement System should, on a monthly basis, analyze reconciliations performed by the Treasurers Office. Outstanding checks, refund errors, returned checks, bank errors, etc. should be reviewed and resolved within six-months and corrections documented.

For control purposes, it is the obligation of the Treasurers' Office to reconcile cash accounts; however, the retirement office has the ultimate responsibility to make sure the cash accounts are reconciled in a timely manner, and all reconciling items are attended to and not allowed to accumulate.

Board Response:

The Retirement System has addressed the issue of outstanding checks by working with the MTS (Municipal Technology Systems) Department in developing a monthly report to James O'Brien, retirement staff employee. This listing gives the date when the check was issued, name, division

Springfield Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

and employee# of the retiree, check number and the amount issued. A letter notifying the retiree of the outstanding check is now being utilized. The tracking of each notification and the written responses from the retiree are being kept in a separate binder for quick reference. Copy enclosed.

3. Membership

- A. Previous PERAC examinations for audit periods ending December 31, 1996 and December 31, 1999 determined that the City of Springfield's MIS department should discontinue maintaining retirement system membership records. As a result of the 1996 audit, the Springfield Retirement System purchased software to maintain membership records; however, during this time, the retirement system has not utilized the new software and continues to pay maintenance fees for software it does not use. As of 2003, a lack of progress has been documented in the conversion from the Mapper Network to the software system purchased as a result of the December 31, 1996 audit. For example, in 2003, an upgrade payment of \$7,645.40 was paid to the software provider plus an annual maintenance cost of \$7,336.08 totaling \$14,981.48 for a system that is not 'on-line' as of the audit date.
- B. During the membership review several errors in contribution rates were found. Most of the errors occurred when the previous administrators were using date of hire instead of the date of membership to assign contribution rates.

Recommendation

- A. The recommendation is the same as in the prior audit: "The Springfield Retirement System must work with the City of Springfield's Data Processing Department to develop the necessary membership downloads or develop its own independent sources so that membership information can be downloaded into the membership software." The System should not be paying maintenance fees on programs they are not currently utilizing.

Board Response:

During the year 2004, the membership files and supplementary schedule for year ending 2003 have been updated and balanced. The retiree conversion did not prove to be so successful with some of the information from the conversion going to the incorrect fields. The Springfield Retirement Board has hired an individual who will start employment on February 25, 2005 to data entry and correct all the information beginning with the retirees. We hope to have the data cleaned up and fully running in a few months. We believe this is the start to finalizing our conversion problems.

- B. The Retirement Board is in the process of reviewing the membership files to identify possible errors. The auditors also did an analysis of the membership file during the audit. The internal review should be a continuous process to ensure an accurate file.

Springfield Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

Board Response:

The retirement staff has been researching the employees found with the incorrect contribution rates. The retirement system is notifying the employee of the error and correcting the contribution rates.

4. Executive Sessions

Executive Sessions minutes are included in the regular Board Minutes.

Recommendation

Executive Session minutes should not be included in the normal minutes maintained by the Retirement Board. The Board must prepare a separate set of minutes for Executive Sessions. The purpose of Executive Sessions is to have a record of items that are private and personal in nature (disabilities, personnel matters, etc), and as such must be kept separate from the regular monthly meeting minutes maintained by the Retirement Board.

Board Response:

The executive minutes have been removed from the original binders and placed in separate binders going back as far as 1991. They will be maintained from this time forward as such.

5. Military Service Fund

The Military Service Fund is not being handled in accordance with G.L. c. 32, §22 (7). The Board is not appropriating and collecting contributions from the City of Springfield for members who have been called to active duty in the military.

Recommendation

The Board must comply with requirements. The proper procedure for handling the entire process is discussed in PERAC Memo #39/2001.

Board Response:

The military leave analysis has been completed as of March 21, 2005. The City portion payable to the Springfield Retirement System totals \$62,987.32.

Notification to PERAC actuary James Lamenza has been sent for approval. Once we receive the PERAC notification on the calculations, we will set up a meeting with City Treasurer, Salvatore Calvanese to establish a time table for this payment.

6. Members Over Age 70

The Board has not been notifying members who reach the age of 70 of their right to stop making contributions. This is required by G.L. c. 32, §90 (G) (¾).

Springfield Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

Recommendation

The Board has identified all members over age 70 and is in the process of complying with G.L. c. 32. They must ensure that this is implemented as a standard procedure.

Board Response:

The retirement staff has corrected this by sending out letters of notification of G.L. c. 32, sec. 90(G)(3/4). Also, an ongoing annual listing of the members who will attain the age of 70 in the current year is being used to notify the employees before their 70th birthday.

Final Determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Springfield Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2003	2002	2001	2000
Cash	\$97,956	\$711,154	\$2,632,747	\$1,988,706
Short Term Investments	18,831,292	11,961,178	27,436,782	14,027,789
Fixed Income Securities	64,987,075	68,528,055	93,743,476	115,318,762
Equities	88,311,382	52,919,476	72,337,436	57,258,417
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	40,600,041	32,281,177	35,255,886	37,665,173
Pooled International Equity Funds	0	0	0	0
Pooled Global Equity Funds	37,351,734	30,569,092	33,536,753	43,255,265
Pooled Domestic Fixed Income Funds	0	0	0	0
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	8,127,363	18,588,227	7,374,025	12,514,722
Pooled Real Estate Funds	0	0	0	0
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	0	0	0	0
Interest Due and Accrued	681,039	810,031	1,041,900	1,744,283
Accounts Receivable	8,224,402	6,595,343	8,306,368	9,073,073
Accounts Payable	(11,167,784)	(961,674)	(13,663,960)	(1,581,801)
TOTAL	<u>\$256,044,499</u>	<u>\$222,002,058</u>	<u>\$268,001,414</u>	<u>\$291,264,389</u>
FUND BALANCES				
Annuity Savings Fund	\$105,842,070	\$104,958,112	\$107,803,649	\$101,956,085
Annuity Reserve Fund	52,965,201	49,491,834	39,295,824	37,575,841
Pension Fund	(20,446,790)	(6,397,898)	5,645,106	14,309,578
Military Service Fund	26,043	25,499	25,305	27,403
Expense Fund	0	0	0	0
Pension Reserve Fund	117,657,975	73,924,510	115,231,529	137,395,482
TOTAL	<u>\$256,044,499</u>	<u>\$222,002,058</u>	<u>\$268,001,414</u>	<u>\$291,264,389</u>

Springfield Retirement System
STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$93,979,214	\$37,417,788	\$22,089,272	\$27,138	\$0	\$138,658,150	\$292,171,562
Receipts	12,625,512	1,110,164	23,366,806	265	1,662,387	(1,306,245)	37,458,889
Interfund Transfers	(3,262,180)	3,218,604	0	0	0	43,576	(0)
Disbursements	<u>(1,386,461)</u>	<u>(4,170,714)</u>	<u>(31,146,499)</u>	<u>0</u>	<u>(1,662,387)</u>	<u>0</u>	<u>(38,366,062)</u>
Ending Balance (2000)	101,956,085	37,575,841	14,309,578	27,403	0	137,395,482	291,264,389
Receipts	12,820,907	1,153,790	23,482,344	193	2,039,072	(22,149,119)	17,347,187
Interfund Transfers	(4,948,430)	4,963,263	2,290	(2,290)	0	(14,833)	(0)
Disbursements	<u>(2,024,913)</u>	<u>(4,397,071)</u>	<u>(32,149,106)</u>	<u>0</u>	<u>(2,039,072)</u>	<u>0</u>	<u>(40,610,162)</u>
Ending Balance (2001)	107,803,649	39,295,824	5,645,106	25,305	0	115,231,529	268,001,414
Receipts	12,770,304	1,334,124	23,774,597	194	5,027,535	(41,422,415)	1,484,338
Interfund Transfers	(14,182,764)	14,067,368	0	0	0	115,396	(0)
Disbursements	<u>(1,433,077)</u>	<u>(5,205,481)</u>	<u>(35,817,692)</u>	<u>0</u>	<u>(5,027,535)</u>	<u>0</u>	<u>(47,483,785)</u>
Ending Balance (2002)	104,958,112	49,491,834	(6,397,989)	25,499	0	73,924,510	222,001,967
Receipts	11,588,249	1,450,661	25,135,573	544	1,579,500	43,703,121	83,457,648
Interfund Transfers	(7,574,126)	7,543,782	0	0	0	30,344	(0)
Disbursements	<u>(3,130,166)</u>	<u>(5,521,076)</u>	<u>(39,184,465)</u>	<u>0</u>	<u>(1,579,500)</u>	<u>0</u>	<u>(49,415,207)</u>
Ending Balance (2003)	<u>\$105,842,070</u>	<u>\$52,965,201</u>	<u>(\$20,446,881)</u>	<u>\$26,043</u>	<u>\$0</u>	<u>\$117,657,975</u>	<u>\$256,044,408</u>

Springfield Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001	2000
Annuity Savings Fund:				
Members Deductions	\$10,055,533	\$10,733,941	\$10,614,090	\$10,281,696
Transfers from other Systems	167,944	282,903	127,575	278,354
Member Make Up Payments and Redeposits	345,039	371,488	223,734	145,958
Investment Income Credited to Member Accounts	<u>1,019,733</u>	<u>1,381,973</u>	<u>1,855,509</u>	<u>1,919,504</u>
Sub Total	<u>11,588,249</u>	<u>12,770,304</u>	<u>12,820,907</u>	<u>12,625,512</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>1,450,661</u>	<u>1,334,124</u>	<u>1,153,790</u>	<u>1,110,164</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	286,833	198,719	1,636,783	118,625
Received from Commonwealth for COLA and Survivor Benefits	66,288	2,633,133	1,399,874	2,908,420
Pension Fund Appropriation	<u>24,782,452</u>	<u>20,942,745</u>	<u>20,445,687</u>	<u>20,339,761</u>
Sub Total	<u>25,135,573</u>	<u>23,774,597</u>	<u>23,482,344</u>	<u>23,366,806</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>544</u>	<u>194</u>	<u>193</u>	<u>265</u>
Sub Total	<u>544</u>	<u>194</u>	<u>193</u>	<u>265</u>
Expense Fund:				
Expense Fund Appropriation	0	0	58,373	238,815
Investment Income Credited to Expense Fund	<u>1,579,500</u>	<u>5,027,535</u>	<u>1,980,698</u>	<u>1,423,572</u>
Sub Total	<u>1,579,500</u>	<u>5,027,535</u>	<u>2,039,072</u>	<u>1,662,387</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	824,739	890,349	673,169	787,310
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	30,582	20,560	31,329	28,586
Excess Investment Income	<u>42,847,800</u>	<u>(42,333,324)</u>	<u>(22,853,617)</u>	<u>(2,122,141)</u>
Sub Total	<u>43,703,121</u>	<u>(41,422,415)</u>	<u>(22,149,119)</u>	<u>(1,306,245)</u>
TOTAL RECEIPTS	<u>\$83,457,648</u>	<u>\$1,484,338</u>	<u>\$17,347,187</u>	<u>\$37,458,889</u>

Springfield Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001	2000
Annuity Savings Fund:				
Refunds to Members	\$2,264,356	\$1,088,547	\$1,621,028	\$1,281,778
Transfers to other Systems	<u>865,810</u>	<u>344,529</u>	<u>403,885</u>	<u>104,683</u>
Sub Total	<u>3,130,166</u>	<u>1,433,077</u>	<u>2,024,913</u>	<u>1,386,461</u>
Annuity Reserve Fund:				
Annuities Paid	5,239,671	4,851,148	4,269,645	4,093,783
Option B Refunds	<u>281,405</u>	<u>354,334</u>	<u>127,426</u>	<u>76,931</u>
Sub Total	<u>5,521,076</u>	<u>5,205,481</u>	<u>4,397,071</u>	<u>4,170,714</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	26,168,641	24,179,186	20,669,537	19,821,166
Survivorship Payments	1,716,427	1,654,324	1,525,505	1,444,132
Ordinary Disability Payments	434,466	406,625	406,552	441,789
Accidental Disability Payments	7,711,156	7,208,655	6,819,444	6,730,857
Accidental Death Payments	1,899,121	1,722,912	1,611,465	1,612,522
Section 101 Benefits	264,000	264,000	260,000	264,000
3 (8) (c) Reimbursements to Other Systems	990,654	381,990	856,603	832,033
State Reimbursable COLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>39,184,465</u>	<u>35,817,692</u>	<u>32,149,106</u>	<u>31,146,499</u>
Military Service Fund:				
Return to Municipality for Members Who				
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	15,000	15,000	15,000	14,950
Salaries	286,305	295,424	276,817	273,278
Legal Expenses	12,221	10,000	9,976	8,800
Medical Expenses	168	0	0	0
Travel Expenses	8,394	8,058	2,581	0
Administrative Expenses	25,308	3,317,407	347,148	48,783
Furniture and Equipment	27,595	20,574	19,229	16,539
Fiduciary Insurance	10,129	0	0	0
Management Fees	947,297	1,082,804	1,054,172	1,072,624
Custodial Fees	157,557	200,818	244,149	176,708
Consultant Fees	<u>89,525</u>	<u>77,450</u>	<u>70,000</u>	<u>50,705</u>
Sub Total	<u>1,579,500</u>	<u>5,027,535</u>	<u>2,039,072</u>	<u>1,662,387</u>
TOTAL DISBURSEMENTS	<u>\$49,415,207</u>	<u>\$47,483,785</u>	<u>\$40,610,162</u>	<u>\$38,366,062</u>

Springfield Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001	2000
Investment Income Received From:				
Cash	\$111,380	\$7,315	\$894,397	\$426,421
Short Term Investments	391	2,795,084	261,729	260,746
Fixed Income	5,218,937	3,666,226	9,800,223	8,365,636
Equities	846,483	778,064	466,454	713,447
Pooled or Mutual Funds	804,883	570,009	1,481,918	1,976,488
Commission Recapture	<u>29,696</u>	<u>66,713</u>	<u>4,070</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>7,011,770</u>	<u>7,883,412</u>	<u>12,908,791</u>	<u>11,742,738</u>
Plus:				
Realized Gains	9,832,891	6,334,208	7,592,358	19,303,255
Unrealized Gains	43,299,801	6,498,438	10,731,919	12,800,293
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>681,039</u>	<u>810,031</u>	<u>1,041,900</u>	<u>1,744,283</u>
Sub Total	<u>53,813,731</u>	<u>13,642,677</u>	<u>19,366,177</u>	<u>33,847,831</u>
Less:				
Paid Accrued Interest on Fixed Income Securities	(1,185,765)	(1,842,191)	(2,579,358)	(495,526)
Realized Loss	(4,705,297)	(23,427,077)	(19,913,974)	(22,408,815)
Unrealized Loss	(7,226,170)	(29,804,420)	(25,900,779)	(18,644,638)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(810,031)</u>	<u>(1,041,900)</u>	<u>(1,744,283)</u>	<u>(1,710,226)</u>
Sub Total	<u>(13,927,263)</u>	<u>(56,115,588)</u>	<u>(50,138,395)</u>	<u>(43,259,205)</u>
NET INVESTMENT INCOME	<u>46,898,237</u>	<u>(34,589,498)</u>	<u>(17,863,426)</u>	<u>2,331,364</u>
Income Required:				
Annuity Savings Fund	1,019,733	1,381,973	1,855,509	1,919,504
Annuity Reserve Fund	1,450,661	1,334,124	1,153,790	1,110,164
Military Service Fund	544	194	193	265
Expense Fund	<u>1,579,500</u>	<u>5,027,535</u>	<u>1,980,698</u>	<u>1,423,572</u>
TOTAL INCOME REQUIRED	<u>4,050,437</u>	<u>7,743,826</u>	<u>4,990,190</u>	<u>4,453,505</u>
Net Investment Income	<u>46,898,237</u>	<u>(34,589,498)</u>	<u>(17,863,426)</u>	<u>2,331,364</u>
Less: Total Income Required	<u>4,050,437</u>	<u>7,743,826</u>	<u>4,990,190</u>	<u>4,453,505</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$42,847,800</u>	<u>(\$42,333,324)</u>	<u>(\$22,853,617)</u>	<u>(\$2,122,141)</u>

Springfield Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash		\$97,956	0.04%	100
Short Term		18,831,292	7.29%	100
Fixed Income		64,987,075	25.16%	40 - 80
Equities		88,311,382	34.19%	40
Pooled Short Term Funds		0	0.00%	
Pooled Domestic Equity Funds		40,600,041	15.72%	
Pooled International Equity Funds		0	0.00%	
Pooled Global Equity Funds		37,351,734	14.46%	
Pooled Domestic Fixed Income Funds		0	0.00%	
Pooled International Fixed Income Funds		0	0.00%	
Pooled Global Fixed Income Funds		0	0.00%	
Pooled Alternative Investment Funds		8,127,363	3.15%	
Pooled Real Estate Funds		0	0.00%	
Pooled Domestic Balanced Funds		0	0.00%	
Pooled International Balanced Funds		0	0.00%	
PRIT Cash Fund		0	0.00%	
PRIT Core Fund		0	0.00%	100
GRAND TOTALS	\$0	<u>\$258,306,843</u>	<u>100.00%</u>	

For the year ending December 31, **2003**, the rate of return for the investments of the **Springfield** Retirement System was 21.02%. For the five-year period ending December 31, **2003**, the rate of return for the investments of the **Springfield** Retirement System averaged 2.26%. For the 19-year period ending December 31, **2003**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Springfield** Retirement System was 10.15%.

Springfield Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

The **Springfield** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

March 20, 2001

16.08 In accordance with PERAC Investment Guideline 99-3, the Springfield Retirement System may invest in Crescendo Ventures Management – Crescendo V, L.P. The System has been an investor in Crescendo's previous limited partnerships and has achieved very favorable investment results.

19.01(7)(a)(6) The Springfield Retirement System may invest in the Crescendo V, L.P. whose fee structure differs from that noted in the above-noted regulation but which is compatible with standard industry practice.

January 4, 2000

16.08 In accordance with PERAC Investment Guideline 99-3, the Springfield Retirement Board may invest in Boston Millennia Partners II, L.P. The System has submitted the required documents, including an analysis of its investment in Boston Millennia Partners' previous partnership.

June 24, 1998

20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:

(a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.

20.09(3) All venture capital investments shall be made in companies, which have their principal places of business in the United States.

October 2, 1998

19.01(7)(a)(6) The range of fees that are considered tolerable, provided, however, that in no event shall a Board retain a qualified investment manager whose fee is based on a percentage of committed capital, provided, however, that such a fee may be paid for one year after the partnership commences operations, and provided further, that such a fee is paid by all investors;

(6a) the board, however, may retain Boston Millennia Partners, L.P. and pay compensation according to the fee schedule submitted to PERAC provided that all investors pay such a fee.

Springfield Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS(CONTINUED)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

(6b) the board, however, may retain DN Partners, L.P. and pay compensation according to the fee schedule submitted to PERAC provided that all investors pay such a fee.

(6c) the board, however, may retain IAI World Fund, L.L.C. and pay compensation according to the fee schedule submitted to PERAC provided that all investors pay such a fee.

(6d) the board, however, may retain Ticonderoga Partners IV, L.P. and pay compensation according to the fee schedule submitted to PERAC provided that all investors pay such a fee.

August 13, 1997

20.03(1) Equity investments shall not exceed 47% of the portfolio valued at market, including international equities, which shall not exceed 15% of the portfolio valued at market.

20.03(2) At least 36% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(1) The issuer of equity securities must have a publicly available operating record of at least five years, including past performance resulting from mergers, acquisitions, and spinoffs. Equity securities, however, may be purchased at the time of an Initial Public Offering (IPO) provided that the total value of investments with a publicly available operating record of less than five years shall not exceed 5% of the total equity market value.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

(a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

Springfield Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Springfield** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Springfield Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Springfield Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Springfield** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

August 8, 2002

Regular Compensation/Educational Incentive Compensation
Educational Incentive Compensation provided in the contract between the City of Springfield and the International Association of Firefighters AFL-CIO, Local 648 are regular compensation for retirement purposes. Pursuant to 840 CMR 15.03(1)(e), any amounts paid as educational incentives are regular compensation.

Springfield Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

February 28,2000

Election Regulations

1. Call of the Election and Notice of Election - Not less than 120 days prior to expiration of the term of office an elected member of the Retirement Board, the Director shall notify the Retirement Board of a duly called meeting of the Retirement Board of the need to conduct an election. At this meeting of the Retirement Board, the Board shall designate an Election Officer who maybe a member of the Board or a staff member. The Election Officer shall have the duties and be governed by the procedures set forth in 840 CMR 7.03.

At this meeting of the Retirement Board, the Board shall provide a notice of election which notice shall provide for an election date at least ninety days after date of the mailing of the notice of election to all retired members and posting of the notice pursuant to 840 CMR 7.03(2).

The notice of election shall state the time, date, place and manner of election and shall describe nomination and election procedures, including if the election is conducted at a polling place, procedures for voting by absentee ballot.

2. Nomination Procedure - Any member of the retirement system may qualify as a candidate by filing with the Retirement Board a nomination paper or papers, containing the signatures and addresses of at least twenty (20) members of the retirement system. Nomination papers, in blank, shall be made available to candidates at least ninety (90) days prior to the date of the election. The nomination paper or papers, containing the necessary number of qualified signatures and addresses shall be filed no later than forty- five (45) days prior to the date of the election. If the Retirement Board determines that a candidate has filed nomination papers containing less than the required number of qualified signatures, the Retirement Board shall declare the nomination papers invalid and shall notify the candidate of its determination.

3. Election by Declaration - If the Retirement Board determines that only one candidate has been nominated, the Retirement Board shall declare said candidate to be the elected member of the Board, no election shall be held, and said candidate shall take office and serve in all respects as though he or she had been chosen by election.

4. Official Election Ballot - If the Retirement Board determines that more than one Springfield Supplementary Regulations candidate has been nominated, the Board shall immediately prepare an official election ballot. Qualified candidates shall be listed on the official ballot in an order determined by a random drawing of the names of the candidates by the Retirement Board or Election Officer. If the incumbent elected member is nominated, he or she shall be identified as the incumbent on the official ballot.

Springfield Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONTINUED)

5. Elections Conducted by Mail or at Polling Place - Elections shall be conducted either entirely by mail or at one polling place open for not less than ten hours, the time and place to be determined by the Retirement Board. In elections conducted at a polling place, members shall cast their votes on the official ballot in person at the polling place except as provided in Section 6 below.

6. Absentee Ballots - In elections conducted at a polling place members retired from service may vote by absentee ballot and an absentee ballot shall be mailed to each retired member. A member in service may, upon timely request, vote by absentee ballot only if he or she:

- (a) will be absent from the City of Springfield during the hours that the polling place will be opened:
- (b) will be unable to cast his or her vote in person on the day of the election for reasons of religious belief, or
- (c) will be unable to cast his or her vote in person at the polling place by reason of temporary physical disability. Requests for absentee ballots shall be in writing and shall be filed no later than the business day prior to the election. Absentee ballots shall be counted only if received by the Retirement Board no later than the time fixed for the closing of the polls on the day of the election.

7. Tabulation of Ballots - Ballots shall be tabulated by persons designated by Election Officer and may include Retirement Board staff members and/or Election department employees. The Election Officer shall notify each candidate of the time and location of the tabulation of the ballots and shall permit all candidates, or their representatives, to be present at the tabulation.

8. Election Results - The Retirement Board shall notify each candidate, in writing, and Springfield Supplementary Regulations November 3, 1992 Membership shall give public notice of the results of the election within seven days after the election.

9. Preservation of Ballots - All ballots received by the Retirement Board, including those determined to be invalid, shall be preserved by the Retirement Board for ninety days following the date of the election.

November 3, 1992

Membership

To accept Springfield Police Cadets employed by the City of Springfield on a full time basis into the Retirement System as Group 1 members, beginning on the first day of employment or if presently employed by the city, effective on the date of the Commissioner of Public Employee Retirement Administration's approval.

Springfield Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Anthony J. Basile

Appointed Member: Donna M. Williams Term Expires: 07/01/04

Elected Member: James F. Harrigan Term Expires: 07/01/05

Elected Member: Joseph J. Nowak Term Expires: 12/13/05

Appointed Member: Jeffrey E. Poindexter Term Expires: 07/01/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$50,000,000/\$1,000,000
Elected Member:)	MACRS POLICY
Appointed Member:)	
Staff Employee:)	

Springfield Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Mellon** as of **January 1, 2004**.

The actuarial liability for active members was	\$226,656,886
The actuarial liability for retired members was	<u>388,948,282</u>
The total actuarial liability was	615,605,168
System assets as of that date were (actuarial value)	<u>291,016,758</u>
The unfunded actuarial liability was	<u>\$324,588,410</u>
 The ratio of system's assets to total actuarial liability was	 47.3%
As of that date the total covered employee payroll was	\$109,937,408

The normal cost for employees on that date was 7.80% of payroll

The normal cost for the employer was 1.60% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum

Rate of Salary Increase: 3.00% for 2004 gradually increasing to 5.0% in 2012 and after.

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$291,016,758	\$615,605,168	\$324,588,410	47.3%	\$109,937,408	295.25%
1/1/2003	\$266,402,470	\$573,138,293	\$306,735,823	46.5%	\$113,848,147	269.43%
1/1/2002	268,001,414	570,958,349	302,956,935	46.9%	137,353,027	220.57%
1/1/2001	291,264,389	539,502,444	248,238,055	54.0%	131,362,563	188.97%
1/1/2000	292,171,562	515,715,954	223,544,392	56.7%	126,094,614	177.28%

Springfield Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Superannuation	86	69	127	223	45	52	62	89	277	97
Ordinary Disability	2	3	3	2	0	2	2	0	2	1
Accidental Disability	12	18	12	13	12	17	7	5	0	22
Total Retirements	100	90	142	238	57	71	71	94	279	120
Total Retirees, Beneficiaries and Survivors	2,631	2,627	2,870	2,677	2,830	2,677	2,692	2,733	2,844	2,835
Total Active Members	3,597	3,536	3,669	5,103	5,312	5,362	5,219	5,239	5,104	3,413
Pension Payments										
Superannuation	\$14,803,924	\$15,221,896	\$15,422,774	\$18,190,342	\$19,062,478	\$18,775,164	\$19,821,166	\$20,669,537	\$24,179,186	\$26,168,641
Survivor/Beneficiary Payments	1,045,734	1,069,061	1,164,420	1,251,738	1,267,754	1,317,680	1,444,132	1,525,505	1,654,324	1,716,427
Ordinary Disability	502,005	510,493	466,680	458,628	398,941	404,632	441,789	406,552	406,625	434,466
Accidental Disability	5,029,973	5,556,487	5,952,781	6,052,917	6,259,837	6,444,038	6,730,857	6,819,444	7,208,655	7,711,156
Other	<u>2,111,872</u>	<u>2,322,451</u>	<u>2,504,629</u>	<u>2,593,676</u>	<u>2,127,741</u>	<u>2,752,036</u>	<u>2,708,555</u>	<u>2,728,068</u>	<u>2,368,811</u>	<u>3,153,775</u>
Total Payments for Year	<u>\$23,493,508</u>	<u>\$24,680,388</u>	<u>\$25,511,284</u>	<u>\$28,547,301</u>	<u>\$29,116,751</u>	<u>\$29,693,550</u>	<u>\$31,146,499</u>	<u>\$32,149,106</u>	<u>\$35,817,601</u>	<u>\$39,184,465</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac